

Message Text

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PAGE 01 STATE 002373
ORIGIN NEA-03

INFO OCT-01 ISO-00 /004 R

66011
DRAFTED BY NEA/AFN:DHESTER:LLC
APPROVED BY NEA/AFN:DHESTER
-----080241 060501Z /14
R 052036Z JAN 78
FM SECSTATE WASHDC
TO AMEMBASSY ALGIERS

UNCLAS STATE 002373

FOL RPT 77 STATE 311108 SENT ACTION JAKARTA INFO MEDAN
DTD 31 DEC 77

QUOTE: UNCLAS STATE 311108

PASS E/C COUNSELLOR AND PETROLEUM ATTACHE

E.O. 11652: N/A

TAGS: ENRG, ID

SUBJECT: DOE ANNOUNCES DECISION ON PAC INDONESIA LNG
PROJECT

1. FOLLOWING PRESS RELEASE ISSUED BY DEPARTMENT OF ENERGY
MID-AFTERNOON, DECEMBER 30:

"THE DEPARTMENT OF ENERGY TODAY APPROVED A MAJOR PROJECT FOR
THE IMPORTATION OF LIQUEFIED NATURAL GAS (LNG) FROM INDONESIA
TO CALIFORNIA, PROVIDED THAT THE PRICE FOR THE GAS
WOULD NOT BE TIED TO OIL PRICES OF THE ORGANIZATION OF
PETROLEUM EXPORTING COUNTRIES (OPEC).

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THE PROJECT, WHICH WOULD REPRESENT ESTIMATED CAPITAL
INVESTMENTS OF ABOUT \$2 BILLION, WOULD BE THE FIRST
INVOLVING THE IMPORT OF GAS FROM INDONESIA.

PACIFIC INDONESIA LNG COMPANY, UNDER AN AGREEMENT WITH
PERTAMINA, THE INDONESIAN GOVERNMENT OIL AND GAS PRODUCTION
COMPANY, PROPOSES TO IMPORT 539 MILLION CUBIC FEET OF GAS

PER DAY, OR MORE THAN 200 TRILLION BTU'S OF GAS ANNUALLY FOR 20 YEARS, BEGINNING EARLY IN THE 1980'S. THIS IS ABOUT ONE PERCENT OF CURRENT NATIONWIDE GAS CONSUMPTION OR OVER TEN PERCENT OF CURRENT CALIFORNIA GAS CONSUMPTION. THE

GAS WOULD BE DESTINED FOR CALIFORNIA MARKETS.

THE GAS WOULD BE PRODUCED AND LIQUEFIED ON THE ISLAND OF SUMATRA AN INDONESIA AND TRANSPORTED TO AN LNG TERMINAL IN CALIFORNIA, BY A FLEET OF NINE CRYOGENIC TANKERS.

THE INITIAL BASE CONTRACT RATE TO BE PAID FOR THE LNG IN INDONESIA IS \$1.25 PER MILLION BTU'S, WHICH IS \$0.18 LESS THAN THE AVERAGE CURRENTLY RECEIVED BY PRODUCERS OF NEW INTERSTATE GAS IN THE U.S. HOWEVER, THE COST OF SHIPPING THE LNG WOULD BE ROUGHLY AN ADDITIONAL \$1.23 PER MILLION BTU'S TU'S, AND TOTAL COSTS, AFTER REGASIFICATION, WOULD BE \$3.42. THE ADMINISTRATOR OF THE ECONOMIC REGULATORY ADMINISTRATION (ERA), DAVID J. BARDIN, WHO ISSUED THE DECISION FOR THE DOE, FOUND THIS DELIVERED PRICE TO BE ACCEPTABLE BECAUSE IT IS LESS THAN THE PRICE OF ALTERNATIVE NEW ENERGY SUPPLIES SUITABLE FOR RESIDENTIAL USE IN CALIFORNIA.

PAC INDONESIA'S AGREEMENT WITH PERTAMINA CURRENTLY PROVIDES OR PERIODIC INCREASES IN THE LNG PRICE, BASED UPON UNCLASSIFIED

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INCREASES IN INDONESIAN OIL PRICES AND U.S. PRICES OF ALL FUELS. DOE DID NOT APPROVE THE PRICE ESCALATION PROVISION IN THE AGREEMENT, THE ADMINISTRATOR SAID, BUT WOULD APPROVE A PRICE ESCALATION PROVISION BASED UPON GENERAL AND OBJECTIVE ECONOMIC INDICATORS. DOE DID APPROVE A SEPARATE MINIMUM-PRICING PROVISION DESIGNED TO COVER PERTAMINA'S DEBT FINANCING COSTS.

THE ADMINISTRATOR SAID IT IS NOT IN THE PUBLIC INTEREST TO APPROVE, IN ADVANCE, INCREASES WHICH ARE TIED IN PART TO OPEC CARTEL PRICES, AND IN PART TO A DOMESTIC FUELS PRICE INDEX THAT DOES NOT OBJECTIVELY REFLECT THE NEEDS OF EITHER PRODUCERS OR CONSUMERS.

INDONESIA IS A MEMBER OF OPEC AND ESTABLISHES ITS OIL PRICES ACCORDING TO OPEC AGREEMENTS.

PAC INDONESIA IS WHOLLY-OWNED BY TWO CALIFORNIA GAS DISTRIBUTION COMPANIES, SOUTHERN CALIFORNIA GAS COMPANY AND PACIFIC GAS AND ELECTRIC COMPANY. EACH WOULD RECEIVE HALF OF THE IMPORTED LNG.

THE PROPOSAL IS THE FIRST GAS IMPORT PROJECT TO BE DECIDED BY THE DOE. THE PROJECT WAS ORIGINALLY APPROVED BY ADMINISTRATIVE LAW JUDGE SAMUEL GORDON OF THE FORMER FEDERAL POWER COMMISSION IN AN INITIAL DECISION ISSUED IN JULY OF 1977. WITH THE CREATION OF THE DOE, THIS PRO-

CEEDING, ALONG WITH THREE OTHERS INVOLVING THE IMPORTATION OF LNG FROM ALGERIA, WAS TRANSFERRED TO THE ERA OF DOE FOR FINAL DECISION.

THE ADMINISTRATOR NOTED THAT THE DOE, WITH THE HELP OF SEVERAL AGENCIES WHICH HAVE REGULATORY AUTHORITY OVER LNG FACILITIES, INTENDS TO ESTABLISH SPECIFIC CRITERIA WHICH DOE WOULD USE IN RULING ON FUTURE LNG IMPORT APPLICATIONS.

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SITING OF THE CALIFORNIA TERMINAL FACILITY BECAME ONE OF THE MOST CONTROVERSIAL ISSUES IN THE PROCEEDING. FPC JUDGE GORDON IN HIS DECISION FOUND OXNARD TO BE THE "PROPER AND PREFERRED LOCATION" FOR THE TERMINAL. THE CALIFORNIA LEGISLATURE SUBSEQUENTLY, IN SEPTEMBER 1977, PASSED LEGISLATION ON LNG TERMINAL SITING WHICH WOULD PRECLUDE THE SITING OF AN LNG TERMINAL AT OXNARD DUE TO A REMOTE SITING REQUIREMENT. CONSEQUENTLY, PAC INDONESIA, IN NOVEMBER 1977, FILED AN AMENDMENT TO ITS APPLICATION TO CHANGE THE PROPOSED SITE OF THE FACILITIES TO POINT CONCEPTION, CALIFORNIA, WEST OF SANTA BARBARA.

ADMINISTRATOR BARDIN FOUND OXNARD TO BE AN ACCEPTABLE TERMINAL SITE, PROVIDED CERTAIN SAFETY AND ENVIRONMENTAL REQUIREMENTS ARE MET. HE SAID, HOWEVER, THAT IT IS NOT NECESSARILY THE ONLY ACCEPTABLE SITE. HE NOTED THAT PAC INDONESIA'S APPLICATION FOR THE POINT CONCEPTION SITE MAY BE THE SUBJECT OF FURTHER PROCEEDINGS AND THAT DOE WILL COOPERATE WITH THE STATE OF CALIFORNIA TO FIND A MUTUALLY ACCEPTABLE TERMINAL SITE.

AT THE WHOLESALE LEVEL THE GAS WOULD BE PRICED INCREMEN-TALLY, WITH STATE-REGULATED GAS DISTRIBUTORS PAYING THE FULL INCREMENTAL PRICE AS OPPOSED TO A "ROLLED-IN" PRICE WHICH AVERAGES HIGH COST LN G WITH OLDER AND CHEAPER SUPPLIES.

WITH REGARD TO RETAIL PRICING OF THE LNG, BARDIN NOTED THAT CALIFORNIA HAS ITSELF REQUIRED A RESTRUCTURE OF UTILITY RATES, ELIMINATING DISCOUNTS FOR LARGE USERS AND SETTING RATES DESIGNED TO ENCOURAGE CONSERVATION OF SCARCE RESOURCES. THUS, HE CONCLUDED THAT IT IS IN THE UNCLASSIFIED

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PUBLIC INTEREST TO APPROVE THE IMPORT WITHOUT IMPOSING
A FURTHER CONDITION WHICH WOULD REQUIRE A CHANGE IN THE
CALIFORNIA RATE STRUCTURE.

IN OTHER AREAS, THE ADMINISTRATOR'S OPINION ALSO:

-- ORDERED THE SUBMISSION OF A CONTINGENCY PLAN FOR USE

IN PERIODS OF LNG SERVICE INTERRUPTION TO ENSURE
CONTINUED SERVICE TO HIGH PRIORITY CUSTOMERS FOR FIVE
CONSECUTIVE MONTHS; AND

-- NOTED THAT LNG TRANSPORTATION AND HANDLING CARRIES
CERTAIN SAFETY RISKS AND IMPOSED CONDITIONS TO MINIMIZE
BOTH THE RISKS AND THE POTENTIAL CONSEQUENCES OF A
MISHAP."

2. EMBASSY INSTRUCTED TO PASS TO GOI. INDONESIAN
EMBASSY WASHINGTON INFORMED. FURTHER BACKGROUND ON
DECISION PROVIDED BY DOE WILL BE SENT SEPTEL. CHRISTOPHER
UNQUOTE CHRISTOPHER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LPG, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 05 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE002373
Document Source: CORE
Document Unique ID: 00
Drafter: DHESTER:LLC
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780009-0779
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780195/aaaadcjw.tel
Line Count: 196
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 18c98be6-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3822747
Secure: OPEN
Status: NATIVE
Subject: DOE ANNOUNCES DECISION ON PAC INDONESIA LNG PROJECT
TAGS: ENRG, ID
To: ALGIERS
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/18c98be6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014